

Message Text

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ORIGIN EUR-12

INFO OCT-01 AS-01 OMB-01 ISO-00 PM-04 DODE-00 SSO-00
CIAE-00 INR-07 L-03 ACDA-07 NSAE-00 PA-01 SS-15
PRS-01 SP-02 TRSE-00 SAJ-01 NSC-05 NSCE-00 INRE-00
USIE-00 /061 R

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APPROVED BY EUR/RPM:HAHOLMES
OSD/ISA:GEN BOWMAN
PM/ISP:MR. ANDERSON

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O 262330Z JAN 77
FM SECSTATE WASHDC
TO USMISSION NATO IMMEDIATE

C O N F I D E N T I A L STATE 017974

PLEASE HOLD FOR OPENING OF BUSINESS

E.O. 11652: GDS

TAGS: NATO, OCON, AWACS, MILI

SUBJECT: NATO AEW: FRG CALCULATION OF US "DIRECT BENEFITS"

REF: A. STATE 015871
B. HOLTZCLAW-DUNLOP TELECON JAN 26

1. WE UNDERSTAND THAT DURING JANUARY 26 QUADRIPARITE MEETING OF FINANCIAL EXPERTS FRG REP CIRCULATED A PAPER CONTENDING THAT US WOULD DERIVE A "DIRECT BENEFIT" OF SOME DOLS US 867 MILLION FROM PRESENTLY PROPOSED NATO AEW PROGRAM COSTING DOLS US 2.48 BILLION (REF B). FRG CALCULATION IS BASED ON ALLEGED RETURNS TO US ECONOMY IN TAXES AND "SOCIAL" BENEFITS AMOUNTING TO DOLS US 447 MILLION FROM PRODUCTION OF MAJOR SHARE OF AWACS AIRCRAFT IN
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US PLUS A "SAVINGS" TO US OF DOLS US 420 MILLION DERIVED FROM US NOT REPEAT NOT PRODUCING SEVEN ADDITIONAL AWACS A/C FOR ITS OWN DOMESTIC AWACS FORCE IF NATO AEW PROGRAM IS ESTABLISHED.

2. IN SUM, FRG IS APPARENTLY CONTENDING THAT BECAUSE OF US "DIRECT BENEFITS" OF DOLS 867 MILLION, EQUAL TO

35 PERCENT OF TOTAL DOLS US 2.48 BILLION NATO AEW PROGRAM, US SHOULD MAKE A DIRECT CONTRIBUTION TO NATO AEW ABOVE THAT CURRENTLY OFFERED BY US OF DOLS US 667 MILLION OR

27 PERCENT. WE UNDERSTAND, HOWEVER, THAT FRG REP IN MAKING ABOVE PRESENTATION DID NOT DEFINE WHAT FRG BELIEVES INCREASE IN US CONTRIBUTION SHOULD BE NOR DID HE SHED FURTHER LIGHT ON AMOUNT BY WHICH FRG BELIEVES ITS OWN SHARE SHOULD BE REDUCED.

3. WE FURTHER UNDERSTAND US NEGOTIATOR BABIONE IS REQUESTING WASHINGTON GUIDANCE FOR RESPONSE TO FRG PAPER. FOLLOWING ARE OUR THOUGHTS.

4. REF A PARA 5 ADDRESSES PREVIOUS CONTENTIONS THAT US DERIVES SIGNIFICANT ECONOMIC ADVANTAGE FROM MANUFACTURE OF MAJOR PORTIONS OF THE AIRCRAFT SYSTEM, POINTING OUT A) FACT THAT US PROPOSAL TO NATO ALREADY WAIVES RECOUPMENT OF MUCH OF US INITIAL INVESTMENT IN THE SYSTEM, THUS INCREASING THE EFFECTIVE SHARE OF THE US CONTRIBUTION AND B) FACT THAT MAJOR PORTION OF OPERATING COSTS WILL BE SPENT IN EUROPE, THEREBY ROUGHLY EQUALLING ACQUISITION COSTS -- AND RETURNING EQUAL BENEFITS TO EUROPEAN ECONOMIES -- OVER SYSTEM LIFE CYCLE. MR. BABIONE SHOULD MAKE THESE POINTS IN COMMENTING ON FRG PAPER.

5. WE FURTHERMORE NOTE THAT FRG CALCULATION OF PORTION OF PROGRAM COSTS BORNE BY OTHER NATO PARTNERS WHICH WOULD BE SPENT IN US (DOLS US 1,398 MILLION) IS INCORRECT.
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ABOUT DOLS US 100 MILLION OF TOTAL PROGRAM COST OF DOLS US 2.48 BILLION IS GROUND INTERFACE/ENVIRONMENT COST, MOST OF WHICH WILL BE SPENT IN EUROPE. FRG PAPER APPARENTLY DOES NOT TAKE THIS INTO ACCOUNT. WE RECOGNIZE THAT THIS ONLY SLIGHTLY ALTERS FRG CALCULATIONS AND DOES NOT ADDRESS THE PRINCIPAL THRUST OF FRG PAPER.

6. RE FRG ASSERTION THAT US "SAVES" DOLS US 420 MILLION BY NOT PRODUCING 7 E-3A AIRCRAFT FOR US NATIONAL PROGRAM IF NATO AEW IS ADOPTED, WE BELIEVE IT IS IMPORTANT FOR OUR ALLIANCE PARTNERS TO RECOGNIZE THAT US IS PREPARED TO SPEND A SUM (DOLS US 667 MILLION) IN SUPPORT OF NATO AEW WHICH IS CONSIDERABLY IN EXCESS OF THAT WHICH US MIGHT SPEND TO PROCURE AND DEPLOY X-NUMBER OF E-3A TO PROVIDE AEW COVERAGE FOR US TROOPS ON CENTRAL FRONT. US IS PREPARED TO DO THIS IN INTEREST OF ALLIANCE SOLIDARITY AND TO ASSIST IN PROVIDING ESSENTIAL ALLIANCE-WIDE AEW CAPABILITY. WE ARE NOT "SAVING" MONEY BY SUPPORTING NATO AEW; QUITE THE CONTRARY, THE US MIGHT SPEND ONLY DOLS

420 MILLION FOR ITS EUROPEAN AWACS IF THERE WERE NO NATO PROGRAM INSTEAD OF DOLS 667 MILLION THAT WE MUST CONTRIBUTE TO NATO PROGRAM.

7. RE OTHER PRINCIPAL FRG CONTENTION, THAT US DERIVES 25 PERCENT IN TAX BENEFITS AND 7 PERCENT IN "SOCIAL BENEFITS" FROM EVERY DOLLAR SPENT ON NATO AEW IN US, WE WOULD OF COURSE WELCOME FRG EXPLANATION ABOUT HOW THESE FIGURES ARE DERIVED. BUT MORE IMPORTANT, INSERTION OF SUCH CALCULATIONS IN THESE NEGOTIATIONS CONSTITUTES A NOVEL AND LIKELY PRECEDENT-SETTING STEP, RAMIFICATIONS OF WHICH WE BELIEVE DESERVE CAREFUL STUDY. FOR EXAMPLE, IF US TAXES ARE CREDITED AS A US BENEFIT THEN EUROPEAN TAXES ON GROUND INTERFACE AND OPERATIONS AND MAINTENANCE EXPENSES OVER THE LIFE OF THE PROGRAM SHOULD BE CREDITED TO EUROPEANS. SAME POINT COULD BE MADE WITH RESPECT TO US TROOP COSTS IN EUROPE. SUGGEST CONFIDENTIAL

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YOU DISCUSS LATTER POINT WITH FRG ON A BILATERAL BASIS. US CONGRESS WOULD CERTAINLY RAISE THAT ARGUMENT.

8. IF MR. BABIONE BELIEVES A THIRD MEETING OF FINANCIAL EXPERTS IS REQUIRED, WE CONCUR.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AWACS, AIR DEFENSE, MILITARY BUDGET, FUND ALLOTMENT, WARNING SYSTEMS
Control Number: n/a
Copy: SINGLE
Sent Date: 26-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE017974
Document Source: CORE
Document Unique ID: 00
Drafter: EUR/RPM:REHFELD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770029-0008
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770115/aaaaamy.z.tel
Line Count: 146
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a2d938d0-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 15871
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3492146
Secure: OPEN
Status: NATIVE
Subject: NATO AEW: FRG CALCULATION OF US "DIRECT BENEFITS"
TAGS: OCON, MILI, NATO
To: NATO BRUSSELS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a2d938d0-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009